

TO: The Board of Regents
Business Affairs

MEETING DATE: May 25, 2016

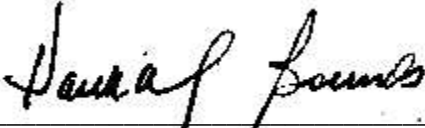
SUBJECT: FY 2016-17 University of Nebraska Operating Budget

RECOMMENDED ACTION: Approve the University of Nebraska's FY 2016-17 Operating Budget.

PREVIOUS ACTION: March 18, 2016 – A budget update was provided at the Board of Regents meeting
January 29, 2016 – A budget update was provided at the Board of Regents meeting
June 12, 2015 – The Board of Regents approved the 2015-16 operating budget and FY 2015-16 and 2016-17 Tuition Rates
January 30, 2015 – The Board of Regents approved the 2015-17 University of Nebraska at Kearney Collective Bargaining Agreement
January 30, 2015 – The Board of Regents approved the 2015-17 University of Nebraska at Omaha Collective Bargaining Agreement
July 18, 2014 – The Board of Regents approved the FY 2015-16 and 2016-17 University of Nebraska Biennial Operating Budget Request

EXPLANATION: The attached materials provide an overview of the proposed 2016-17 University of Nebraska operating budget. Expenditures, including salaries and benefits, are estimated and subject to availability of state funds appropriated to the Board of Regents.
A 2.5% tuition rate increase was previously approved by the Board in June 2015.
Additional details and rationale on the proposed budget are attached.

SPONSORS: Chris Kabourek
Assistant Vice President and Director of Budget and Planning
David E. Lechner
Senior Vice President | CFO

RECOMMENDED: 
Hank M. Bounds, President
University of Nebraska

DATE: May 13, 2016

UNIVERSITY OF Nebraska

Pioneering new frontiers.

2016-2017 Operating Budget

Proposal to the Board of Regents
May 25, 2016

Index

Executive Summary	3
State-aided Budget Highlights	5
Operating Budget Details	7
2016-17 Tuition Rates	11
Budget Line Item Details and Rationale	14
Compensation	14
Salaries, Wages and Benefits	14
Health Insurance	15
Core Operations	17
Utilities	17
Building Operating and Maintenance	17
General Operations - Inflation	17
Strategic Investments	18
Salary Competitiveness	18
Programs of Excellence	19
Need Based Aid (Collegebound Nebraska)	20
Intercampus Development Fund: College Access and Success Initiatives	21
Economic Competitiveness Initiatives – Legislative Designations	21

Executive Summary

A focus on priorities to ensure excellence

In his recent installation address, University of Nebraska President Hank Bounds outlined four cornerstones for success that will allow the university to distinguish itself in today's increasingly competitive higher education world. Pursuit of the four cornerstones – related to students, research, partnerships, and people – will advance strategic priorities of the Board of Regents, meet the expectations Nebraskans have for their university, and position NU to become a giant in higher education.

The fiscal year 2016-17 operating budget being brought to the Board for consideration includes key investments in each of President Bounds' cornerstones, including:

- A previously approved 2.5 percent tuition increase – one of the smallest increases in 30 years, ensuring that NU remains an excellent value compared to peer institutions.
- A corresponding 2.5 percent increase in need-based financial aid, so that Nebraska students with the greatest need will continue to pay no tuition.
- A \$2.5 million increase in NU's Programs of Excellence, allowing for strategic investments in priority academic areas where the university has opportunities for global leadership.
- Legislative designations for collaborative, multi-campus initiatives that will grow the economy and meet workforce needs in Nebraska.
- A 2.5 percent increase in the salary pool for non-unionized employees that will be distributed on the basis of merit, plus a \$3 million pool that will address specific salary competitiveness issues. Taken together, the investments in compensation will reward employees who have demonstrated exceptional merit while also allowing NU to keep up with market increases so it can continue to recruit and retain top talent.

Continued investments in the University of Nebraska will be necessary to further the goal of becoming a giant in higher education. Demand for affordable, quality higher education remains high; the marketplace for talented faculty and staff is extraordinarily competitive; and universities are called upon to do even more to address the complex challenges of the day. The University of Nebraska is well-positioned to differentiate itself, thanks in part to a stable base of state support that allows NU to provide affordable excellence and fuel a \$3.9 billion annual impact on Nebraska's economy. President Bounds and university leadership are grateful to Governor Ricketts and members of the Legislature for their support, which helps NU effectively serve Nebraskans by preparing the future workforce, attracting and retaining talent, and conducting research and outreach that solves critical challenges facing Nebraska and the world. Most importantly, the partnership between the state and its public university means college will remain within reach for Nebraskans who want to take advantage of the many opportunities higher education provides. Elements of the proposed budget and their connections to President Bounds' four cornerstones are described in more detail below.

The University of Nebraska will be the best place in the nation to be a student.

The first priority of the Board of Regents is to ensure that all Nebraskans have access to affordable, excellent higher education. While the benefits of a college degree have never been clearer, cost and access are key areas of concern for Nebraska students and families. The university must continue to keep costs reasonable so that all Nebraskans can attend regardless of their economic status – while also maintaining high academic standards.

The 2017 operating budget includes no change to the 2.5 percent tuition increase approved by the Board in June 2015. The university continues to represent an excellent value, providing a quality education at tuition rates that typically are 25 percent below those of peers. UNL tuition and fees are 50 percent lower than the average among Big Ten institutions. These competitive prices allow NU students to graduate, on average, with less debt than students at peer institutions.

To ensure the university is accessible to all Nebraskans, the 2017 budget also includes a 2.5 percent increase to need-based aid programs, including Collegebound Nebraska, which promises full tuition coverage for the over 7,000 Nebraskans receiving Pell grants.

The University of Nebraska will transform lives through research and innovation.

The 2017 budget includes a \$2.5 million increase for Programs of Excellence, bringing total funding to this initiative to \$30 million per year. These additional investments will allow the university to make targeted faculty hires with an eye on elevating its reputation and impact in areas where there are opportunities for national or global leadership. These include water and agriculture, early childhood education, national security and defense, rural development, cancer, public health, engineering, information technology, and the arts and humanities.

The University of Nebraska will work hand-in-hand with its partners.

The university appreciates the support Governor Ricketts and the Legislature have shown for higher education. Not only does the 2017 budget include a stable base of state support, it also includes legislative designations for strategic investments in multi-campus initiatives that will benefit the state's economy and quality of life. These include additional funding for the UNMC nursing and allied health programs at Kearney, the biomedical institute collaboration between UNMC and UNO and operating funding for the Center for Advanced Interprofessional Learning program at UNMC.

The University of Nebraska will win with people.

None of the university's goals would be possible without people. That's why nearly two thirds of the proposed new increases in the 2017 budget is targeted toward compensation increases. Included in the budget proposal is a 2.5 percent merit salary pool that will be distributed to employees based on their performance during the past year.

The budget recognizes that the university has work to do in making its salaries more competitive, particularly for UNL and UNMC faculty. Thus, an additional \$3 million is included to address salary competitiveness issues like market catch-up needs, retention issues or other necessary salary adjustments. In addition to these wage increases, the budget includes funding to pay for associated increases in fringe benefits, including funds for employee health insurance.

State-aided Budget Highlights

The 2017 state-aided operating budget is proposed to go up nearly \$31 million, a 3.4% increase over the prior year. As shown in table 1, the majority of the increase, \$16.7 million, comes from the three percent increase in state appropriated tax dollars provided by Governor Ricketts and members of the Nebraska Legislature.

An additional \$6.7 million in revenue will result from the 2.5 percent tuition increase for resident and nonresident students that the Board of Regents approved in June 2015.

Anticipated enrollment growth among nonresident and distance education students, where the university is experiencing especially strong demand, will create additional tuition revenue. Non-resident tuition was up 5.2 percent in FY 2016 and is projected to go up an additional 1.1 percent in FY 2017. Distance education tuition was up 10.5 percent in FY 2016 and is projected to be up another 5.1 percent FY 2017.

One item of concern which requires further analysis is the drop in resident tuition, which declined -2.1 percent in FY 2016 and is projected to be flat in FY 2017.

Table 1: Change in State-aided Funding Sources

	Change from 2015-16	% Change
State appropriations	\$ 16,686,307	3.0%
State appropriation designations	2,250,000	0.4%
	<u>18,936,307</u>	<u>3.4%</u>
2.5% tuition increase	6,667,036	2.5%
Enrollment Changes (excluding distance)		
Nonresident	1,184,962	1.1%
Resident	(50,720)	0.0%
	<u>1,134,242</u>	<u>0.4%</u>
Distance education		
Enrollment growth	2,928,394	5.1%
Price Changes	1,288,216	2.2%
	<u>4,216,610</u>	<u>7.4%</u>
Total Funding Changes	<u>\$ 30,954,195</u>	<u>3.4%</u>

Table 2 provides a summary of how the new funds are proposed to be expended in FY 2017. Compensation and core operations are projected to go up by 2.4 percent with an additional 1 percent being invested in strategic priorities.

Like most universities, the University of Nebraska directs most of its state-aided budget toward people, and the majority of the increased costs next year will be for compensation. This includes a 2.5 percent salary

merit pool and an increase for health insurance. Milliman, an independent actuary that provides premium consultation for our health plan, projects the plan's premiums will need to increase 9.2 percent on January 1, 2017. Six months of those expenses, which equates to a 4.6 percent budget increase, are reflected in the FY 2017 budget.

The proposed budget includes a number of new investments in strategic initiatives intended to advance President Bounds' priorities for the university. These include \$3 million for salary competitiveness, \$2.5 million for Programs of Excellence, and additional funds for need based aid and college access and success initiatives. Additional details on these items can be found later on in this document.

Marginal revenues from enrollment increases and distance education initiatives are returned to the campus, dollar for dollar, to cover marginal costs associated with teaching more students. These revenues also provide opportunity funding that can be invested in campus and/or distance education initiatives.

Table 2: Change in State-aided Expenditures by Major Category

	Change from 2015-16	% Change
Compensation & Core Operations	\$ 21,860,692	2.4%
Strategic Initiatives		
Salary Competitiveness	3,000,000	
Programs of Excellence	2,500,000	
Need based aid	275,500	
College Pipeline (Commit to Complete, etc.)	250,000	
Distance Education	4,216,610	
Legislative designations	2,250,000	
Enrollment Management (costs associated with enrollment growth)	1,134,242	
To be managed	(4,532,849)	
Total Expenditure Changes	\$ 30,954,195	3.4%

Investments in priorities that serve students and the state will require the university to take steps throughout the year to bring expenses in line with funding. \$4.5 million, which represents 0.5 percent of the state-aided budget, will be managed through the year with potential additional revenues after enrollments are known, and/or reducing costs through cutting existing budgets or finding additional operating efficiencies.

Non State-aided Budgets

Non state-aided activity is projected to increase by 1.9% in FY 2017. Modest increases in self-supporting auxiliary entities (2.3 percent) and restricted private contributions (2.8 percent) are expected in FY 2017. The outlook for federal research funding continues to be mixed, with only a 0.4% increase in federal funding projected.

Operating Budget Details

State-Aided Less Revolving Funds

**(Operating Budget primarily supported
from State Appropriations & Tuition)**

University of Nebraska (Excluding NCTA)
FY 2016-17 State-aided Budget

(Operating Budget Supported Primarily by State Appropriations and Tuition Funds)

	2015-16			2016-17 Proposed Budget (a)		
	Budget	Est. Actuals	% Change	Budget	Change from Actual Amount	%
FUNDING:						
State Appropriations	\$ 556,210,262	\$ 556,210,262	0.0%	\$ 572,896,569	\$ 16,686,307	3.0%
<i>Economic Competitiveness and Other Initiatives:</i>						
Kearney Health Science Academic Programs	1,000,000	1,000,000	0.0%	2,000,000	1,000,000	
Kearney Health Science O&M	424,000	424,000	0.0%	424,000	-	
Biomedical Institute	750,000	750,000	0.0%	1,000,000	250,000	
Nebraska Business Development Center	100,000	100,000	0.0%	100,000	-	
Center for Advanced Interprofessional Learning	1,000,000	1,000,000	0.0%	2,000,000	1,000,000	
Yeutter Institute	1,250,000	1,250,000	0.0%	1,250,000	-	
Total State Support	560,734,262	560,734,262	0.0%	579,670,569	18,936,307	3.4%
Tuition (less University Remissions)						
Resident	160,358,105	156,991,222	-2.1%	156,940,502	(50,720)	0.0% (b)
Nonresident	103,197,940	108,554,404	5.2%	109,739,366	1,184,962	1.1% (b)
Subtotals with Enrollment Changes	263,556,045	265,545,626	0.8%	266,679,868	1,134,242	0.4%
Rate Increase				6,667,036	6,667,036	2.5%
Total Tuition	263,556,045	265,545,626	0.8%	273,346,904	7,801,278	2.9%
Distance Education Tuition (less University Remissions)						
Resident	35,211,547	39,156,531	11.2%	41,385,002	2,228,471	5.7% (b)
Nonresident	16,300,638	17,789,163	9.1%	18,489,086	699,923	3.9% (b)
Subtotals with Enrollment Changes	51,512,185	56,945,694	10.5%	59,874,088	2,928,394	5.1%
Rate Increase				1,288,216	1,288,216	2.2% (b)
Total Distance Education Tuition	51,512,185	56,945,694	10.5%	61,162,304	4,216,610	7.4%
Investment Income, other cash funds	20,841,306	20,664,149	-0.9%	20,664,149	-	0.0%
Federal Smith/Lever Appropriations	6,201,594	6,201,594	0.0%	6,201,594	-	0.0%
Total Estimated Funding	902,845,392	910,091,325	0.8%	941,045,520	30,954,195	3.4%
EXPENDITURES:						(c)
Compensation & Core Operations						
Salaries	592,854,079	598,901,085	1.0%	614,207,556	15,306,471	2.6% (d)
Benefits	72,494,518	73,219,463	1.0%	75,485,246	2,265,783	3.1%
Health Insurance	62,172,341	62,172,341	0.0%	65,032,269	2,859,928	4.6% (e)
Utilities	49,236,023	49,236,023	0.0%	49,236,023	-	0.0%
Operating and All Other	126,088,431	126,562,413	0.4%	126,562,413	-	0.0%
New Building O&M				1,428,510	1,428,510	
Subtotals	902,845,392	910,091,325	0.8%	931,952,017	21,860,692	2.4%
University Strategic Initiatives						(f)
Salary Competitiveness (catch-up/retention/market adjustments/etc.)				3,000,000	3,000,000	
Programs of Excellence				2,500,000	2,500,000	
College Bound Nebraska (need-based aid)				275,500	275,500	
Intercampus Development Fund: Pipeline Initiatives				250,000	250,000	
Subtotals				6,025,500	6,025,500	
Legislative Designations - Economic Competitiveness						
Kearney Health Science Academic Programs				1,000,000	1,000,000	
Biomedical Institute				250,000	250,000	
Center for Advanced Interprofessional Learning				1,000,000	1,000,000	
Subtotals				2,250,000	2,250,000	
Targeted Tuition Investments						
Enrollment Management (marginal growth costs)				1,134,242	1,134,242	(g)
Distance Education				4,216,610	4,216,610	(g)
To be Managed**				(4,532,849)	(4,532,849)	**
Total Expenses	902,845,392	910,091,325	0.8%	941,045,520	30,954,195	3.4%

Notes:

- (a) An estimated \$90 million of one-time carry forward funds (encumbrances and other one-time commitments) are excluded from the recurring budget figures presented above. Reinstatement of allotment (spending) authority for these funds will be submitted to the State of Nebraska Department of Administrative Services (DAS). Capital construction budgets are excluded from the operating budget figures presented above.
 - (b) Tuition/cash budgets are based on prior year revenue collections and projections for FY 2017. Distance education tuition rates, rates, which are market driven, vary by course to course and are approved by the President.
 - (c) Expenditure line items are estimated. Final budget figures may vary from figures noted above. All expenses are subject to availability of state funds appropriated to the Board of Regents.
 - (d) Reflects a 2.5% merit salary pool to be distributed on employee performance. 3% salary increases will be provided to UNO and UNK faculty based on Collective Bargaining Agreements.
 - (e) Health insurance premiums projected to go up 9.2% on Jan 1, 2017. Six months of the increased premiums are reflected in the FY 2017 budget (4.6%)
 - (f) A \$3 million university wide fund to address salary competitiveness issues (market catch-up/retention/adjustments/etc.)
 - (g) Represents actual and projected enrollment changes and distance education price increases. Funds are returned to the campus to fund marginal enrollment costs and/or provide opportunity funds for campus and distance education initiatives.
- ** The \$4.5 million, 0.5% of the budget, represents the amount that must be managed through the course of the year from revenue changes after enrollments are known, budget cuts/efficiencies, and other strategies.

Total Budget (All Funds)

University of Nebraska (Excluding NCTA) FY 2016-17 Budget *Total - All Funds*

	FY 2015-16	Budget FY 2016-17	CHANGE	
			Amount	Percent
REVENUES				
State-aided Funds	\$ 910,091,325	\$ 941,045,520	\$ 30,954,195	3.4%
Designated Cash Funds	78,725,000	81,575,000	2,850,000	3.6%
Revolving/Auxiliary Funds	621,106,403	635,600,578	14,494,175	2.3%
Restricted Federal Funds	509,850,000	511,928,286	2,078,286	0.4%
Restricted Trust Funds	372,294,807	382,694,807	10,400,000	2.8%
Total Revenues	2,492,067,535	2,552,844,191	60,776,656	2.4%
EXPENDITURES				
State-Aided Activities	910,091,325	941,045,520	30,954,195	3.4%
Non State-Aided Activities	1,581,976,210	1,611,798,671	29,822,461	1.9%
Total Expenditures	\$ 2,492,067,535	\$ 2,552,844,191	\$ 60,776,656	2.4%

2016-17 Tuition Rates

University of Nebraska - Lincoln

Student Category	Per Tuition Unit	2015-16 Rate	2016-17 Rate	Change
Undergraduate				
Resident	Sem. Credit Hr.	\$219.75	\$225.25	\$5.50
Nonresident	Sem. Credit Hr.	\$692.00	\$709.25	\$17.25
Graduate				
Resident	Sem. Credit Hr.	\$290.00	\$297.25	\$7.25
Nonresident	Sem. Credit Hr.	\$829.75	\$850.50	\$20.75
College of Architecture Undergraduate				
Resident	Sem. Credit Hr.	\$297.00	\$304.50	\$7.50
Nonresident	Sem. Credit Hr.	\$884.50	\$906.50	\$22.00
College of Architecture Graduate				
Resident	Sem. Credit Hr.	\$384.25	\$393.75	\$9.50
Nonresident	Sem. Credit Hr.	\$1,055.75	\$1,082.25	\$26.50
College of Business Administration Undergraduate				
Resident	Sem. Credit Hr.	\$272.75	\$279.50	\$6.75
Nonresident	Sem. Credit Hr.	\$856.50	\$878.00	\$21.50
College of Business Administration Graduate				
Resident	Sem. Credit Hr.	\$358.75	\$367.75	\$9.00
Nonresident	Sem. Credit Hr.	\$1,025.75	\$1,051.50	\$25.75
College of Engineering Undergraduate				
Resident	Sem. Credit Hr.	\$315.00	\$322.75	\$7.75
Nonresident	Sem. Credit Hr.	\$901.25	\$923.75	\$22.50
College of Engineering Graduate				
Resident	Sem. Credit Hr.	\$401.00	\$411.00	\$10.00
Nonresident	Sem. Credit Hr.	\$1,070.75	\$1,097.50	\$26.75
Law				
Resident	Sem. Credit Hr.	\$345.00	\$353.75	\$8.75
Nonresident	Sem. Credit Hr.	\$911.50	\$934.25	\$22.75

Rates charged by SCHs rounded to nearest \$.25

University of Nebraska at Omaha

Student Category	Per Tuition Unit	Total 2015-16 Rate	2016-17 Rate	Change
Undergraduate				
Resident	Sem. Credit Hr.	\$200.25	\$205.25	\$5.00
Nonresident	Sem. Credit Hr.	\$626.75	\$642.50	\$15.75
Graduate				
Resident	Sem. Credit Hr.	\$249.50	\$255.75	\$6.25
Nonresident	Sem. Credit Hr.	\$697.00	\$714.50	\$17.50
College of Business Administration Undergraduate				
Resident	Sem. Credit Hr.	\$250.25	\$256.50	\$6.25
Nonresident	Sem. Credit Hr.	\$701.75	\$719.25	\$17.50
College of Business Administration Graduate				
Resident	Sem. Credit Hr.	\$324.50	\$332.50	\$8.00
Nonresident	Sem. Credit Hr.	\$809.50	\$829.75	\$20.25

Rates charged by SCHs rounded to nearest \$.25

University of Nebraska at Kearney

Student Category	Per Tuition Unit	2015-16 Rate	2016-17 Rate	Change
Undergraduate				
Resident	Sem. Credit Hr.	\$177.50	\$182.00	\$4.50
Nonresident	Sem. Credit Hr.	\$386.50	\$396.25	\$9.75
Graduate				
Resident	Sem. Credit Hr.	\$220.25	\$225.75	\$5.50
Nonresident	Sem. Credit Hr.	\$483.25	\$495.25	\$12.00

Rates charged by SCHs rounded to nearest \$.25

University of Nebraska Medical Center Tuition Rates

Student Category	Per Tuition Unit	2015-16 Rate	2016-17 Rate	Change
Undergraduate				
Resident	Sem. Credit Hr.	\$219.75	\$225.25	\$5.50
Nonresident	Sem. Credit Hr.	\$692.00	\$709.25	\$17.25
Graduate				
Resident	Sem. Credit Hr.	\$290.00	\$297.25	\$7.25
Nonresident	Sem. Credit Hr.	\$829.75	\$850.50	\$20.75
Allied Health Physical Therapy (Semester)				
Resident	Semester	\$6,254	\$6,410	\$156
Nonresident	Semester	\$12,110	\$12,413	\$303
Allied Health Physical Therapy (Summer)				
Resident	Session	\$3,525	\$3,613	\$88
Nonresident	Session	\$6,834	\$7,005	\$171
Allied Health Medical Nutrition				
Resident	Semester	\$3,058	\$3,134	\$76
Nonresident	Semester	\$5,190	\$5,320	\$130
College of Public Health - Doctoral Programs				
Resident	Sem. Credit Hr.	\$290.00	\$297.25	\$7.25
Nonresident	Sem. Credit Hr.	\$829.50	\$850.25	\$20.75
College of Public Health - Professional Programs				
Resident	Sem. Credit Hr.	\$380.00	\$389.50	\$9.50
Nonresident	Sem. Credit Hr.	\$951.75	\$975.50	\$23.75
Dentistry (Semester)				
Resident	Semester	\$11,678	\$11,970	\$292
Nonresident	Semester	\$28,654	\$29,370	\$716
Dentistry (Summer)				
Resident	Session	\$5,838	\$5,984	\$146
Nonresident	Session	\$14,327	\$14,685	\$358
Medicine				
Resident	Semester	\$14,241	\$14,597	\$356
Nonresident	Semester	\$35,425	\$36,311	\$886
Nursing Undergraduate				
Resident	Sem. Credit Hr.	\$278.25	\$285.25	\$7.00
Nonresident	Sem. Credit Hr.	\$864.25	\$885.75	\$21.50
Nursing Graduate				
Resident	Sem. Credit Hr.	\$447.25	\$458.50	\$11.25
Nonresident	Sem. Credit Hr.	\$933.25	\$956.50	\$23.25
Pharmacy				
Resident First Year	Semester	\$9,324	\$9,557	\$233
Nonresident	Semester	\$19,212	\$19,692	\$480

Rates charged by SCHs rounded to nearest \$.25. Other rates rounded to nearest dollar.

Budget Line Item Details and Rationale

Compensation

Salaries, Wages and Benefits

Like most universities, personnel costs are the largest expenditure component of our budget, accounting for over 80% of the expenses in our state-aided budget (supported by state tax dollars and tuition). Thus, compensation strategy is a key priority for the University. In order to recruit and retain talented faculty and staff who are responsible for carrying out the university's missions of teaching, research and service, the University of Nebraska must provide compensation at a level that allows us to be competitive in the global marketplace.

A 2.5 percent salary merit pool is proposed. The UNO and UNK collective bargaining contracts will be funded at their negotiated 3 percent levels. The increase in the salary base is multiplied by a factor of 14.5% to cover the cost of associated fringe benefits (FICA, retirement contributions, etc.).

To assess salary market fundamentals, the university surveyed Big Ten institutions about their anticipated FY 2017 salary programs. Salaries at Big Ten institutions are projected to increase anywhere from 0 to 5 percent in FY 2017, with a majority of institutions projecting increases in the 2 to 2.5 percent range. A 2.5 percent salary merit pool, as proposed in the FY 2017 budget, should allow the University of Nebraska to keep up with industry market increases, although it will not address the challenges we face to catch-up with the peer average faculty salary at UNL and UNMC.

Although compensation is the primary cost component of our budget, employees are not being added to the state-aided payroll. As the chart on the next page demonstrates, the number of University of Nebraska full-time equivalent employees funded from state and tuition dollars has declined over the past 15 years. If we were to factor in the additional 6,500 enrollment growth increase since 2000, the number of employees per student has decreased significantly since 2000.

While we are always looking for ways to operate more cost-effectively and efficiently, the facts demonstrate that the University is doing more teaching, research and outreach with fewer employees funded from state general funds and tuition.



Employees funded from state tax dollars and tuition have been flat despite a 6,000 increase in student enrollments

Health Insurance

The University of Nebraska offers a preferred provider (PPO) “self-insured” health plan providing medical, dental, and pharmacy coverage to its employees. Most employers the size of the University are self-insured for medical coverage as it gives them more control over plan design. In addition, any ‘profits’, typically built into insurance company prices, are retained by the plan and its participants.

The University utilizes the expertise of the following outside vendors to assist in the administration of the plan:

<u>Entity</u>	<u>Description of Service Provided</u>
BlueCross BlueShield of Nebraska	Third party administrator for medical and dental claims
CVS Caremark	Third party administrator for pharmacy claims
Wells Fargo	Trustee
Milliman	Independent actuaries – provide projections used to set

Premiums charged to both the employer (University) and employees are designed to cover the plan’s projected claim costs plus administrative expenses. Any potential changes in premiums, which become effective on January 1, are established by University management each fall after analyzing Milliman’s actuarial expense projections, which are based on a combination of University internal experience along with Milliman’s book of business experience.

Milliman has projected a 9.2 percent increase in the plan's employer/employee premiums will be required in calendar year 2017. This increase is dictated on the plan experiencing an extraordinary increase in costs over the past few months. For example:

- Membership is up over 3%
- Claim expenses are up significantly in 2016; 28% high than the prior year (23% higher on a per member basis)
- High cost claims (\$100,000 and above) are up significantly over last year. The plan has had 22 high cost claims thus far in 2016 vs. 9 in 2015, paying out \$3.5 million in high cost claims vs \$1.1million last year.
- All service category expenses are up; when we remove high cost claims, claims are still up 13% over last year

Given the 9.2 percent premium increase only impacts the last six months of the 2017 fiscal year, a 4.6 percent increase has been included in the University's budget.

While a three month premium holiday was provided to both the employer and employee in fiscal year 2016, this one-time strategy was utilized to bring down the plan's reserve balances to targeted levels. The proposed 2017 premium increases were not influenced by the premium holiday strategy, as premium increases would have been required regardless.

Core Operations

Utilities

The University engaged local energy providers (Lincoln Electrical System, Omaha Public Power District, Metropolitan Utilities District, Nebraska Public Power District, etc.) in discussions about potential future rate increases. While increases differ by locality, cost pressures are particularly being seen in the Omaha utility market.

Although we recognize the potential commodity price increases, management believes the University currently has enough capacity in its utility budget to cover modest changes. Any utility budget savings realized throughout the year are reinvested into utility infrastructure maintenance, repairs, and capital improvements, although this flexibility is being squeezed by the lack of utility budget increases over the past several years. Therefore, a modest utility increase will likely be required in the next biennium.

Building Operating and Maintenance

Operating and maintenance support is vital in that adequate maintenance extends the life of the investment and contributes to the utilization of the new/renovated space. Adequate support for operations, maintenance, utilities and staffing will result in clean and functional work areas, and help minimize future deferred maintenance issues.

The list of new or significantly renovated facility projects (and the associated operating and maintenance requirements) anticipated to be completed during the fiscal year are shown below. Funding is used to support the operations, maintenance, and utilities for these structures.

University of Nebraska Building O&M Projections FY 2016-17 Budget

UNL	FY 2016-17
College of Business	\$ 600,000 (year 2 of three year plan)
Vet Diagnostic Center	498,000
Military Road North	129,684
12th & Q Lease	60,483
Subtotals	1,288,167
UNMC	
Center for Drug Discovery	126,934
Student Life Center	13,409
Subtotals	140,343
TOTALS	\$ 1,428,510

General Operations - Inflation

While inflation has increased by about 1 percent this year (as measured by both the Consumer Price Index and the Higher Education Price Index), no funding is recognized in the budget to cover these increases. The University will be required to absorb and manage these increased costs through existing budgets.

Strategic Investments

Salary Competitiveness

While the University of Nebraska can be a great place to work by compensating our talented employees competitively, we know there is still work to do here, particularly for our faculty at the UNL and UNMC campuses. The Board of Regents has had a long-standing goal, articulated in the University's strategic framework, that faculty and staff salaries should meet or exceed the midpoint of their peers.



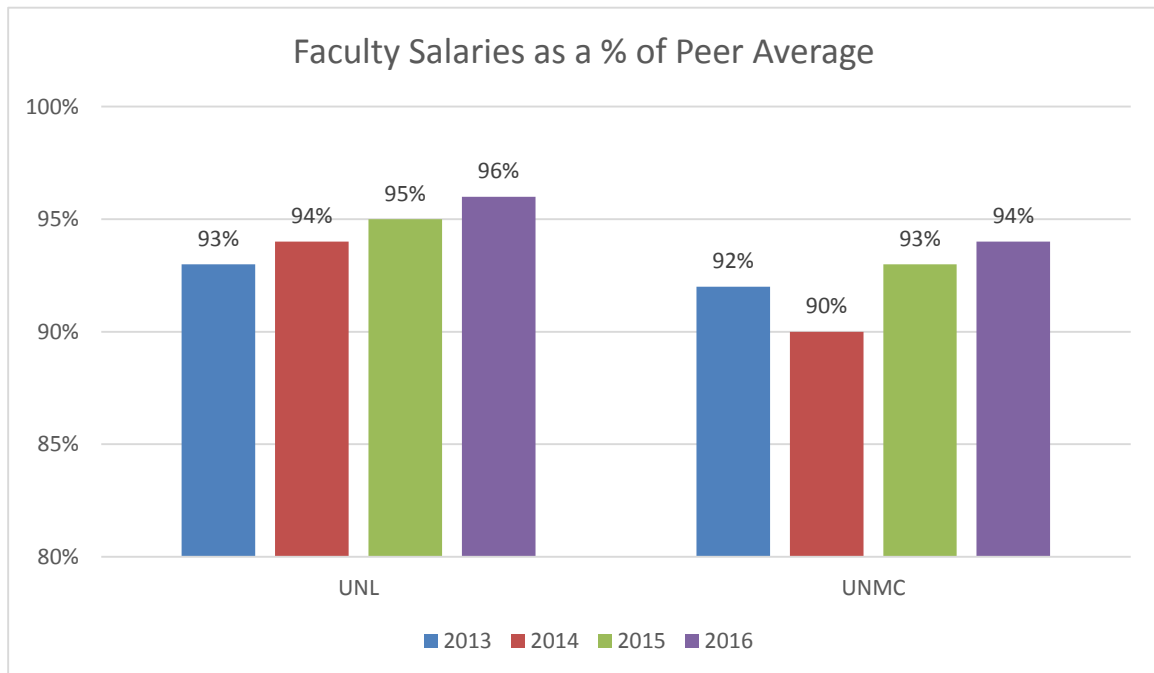
Compensation

“To help ensure competitiveness, faculty salaries and incentives (awarded on the basis of merit) and fringe benefits should exceed the average of peer institutions.”

NU Strategic Framework (2.a.i.)

At UNL, faculty salaries are currently 4 percent behind the peer average and at UNMC they lag the peer average by 6 percent. While the average faculty salary at both UNL and UNMC have yet to achieve the strategic framework goal, each campus has realized steady progress over the past four years as shown in the charts below.

It is our intent to continue this momentum by providing a \$3 million salary competitiveness pool in the FY 2017 budget. These funds, to be allocated above and beyond the 2.5 percent merit pool, will be used to address university-wide salary competitiveness issues, including, but not limited to, market catch-up, talent retention, compression issues, and/or other salary market issues.



Programs of Excellence

The 2017 budget includes a \$2.5 million increase for Programs of Excellence (POE), bringing total funding to this 16 year initiative to \$30 million per year. Through targeted investments in Programs of Excellence, the university has strategically built new or enhanced premier academic programs in areas that are both important to Nebraska and strengths for the university. Programs of Excellence improve the instructional, research and outreach capacities of all NU campuses. Past investments span disciplines that include physics, nanoscience, agricultural life sciences, water, business, engineering, computational sciences, medicine, children/youth, education, student opportunities, and nursing. The most recent investments continue to focus on strengthening Engineering, Information Technology, Medical Research, Agriculture, and Early Childhood.

Recent Programs of Excellence Investments

Engineering and Information Technology

In an ongoing commitment to strengthen Engineering and Information Technology across the state, additional faculty POE lines have been funded (starting in FY13 and planned through FY17) as follows:

- 25 UNL College of Engineering faculty lines - \$3,722,692
- 7 UNO College of Information Science and Technology faculty lines - \$646,700
- 2 UNK Pre-Engineering faculty lines - \$300,000

Microbiome Research

New faculty are being hired at UNL/IANR and UNMC to improve our understanding of how the microbiome (i.e., microbial communities) impacts animal, plant and human health. Current NU faculty have linked the microbiome to human obesity, immune status, animal health, and crop productivity. They also are exploring potential relationships to cardiac and mental health, and will be developing approaches to manipulating the microbiome to achieve healthy outcomes. Human microbiome researchers and UNMC medical faculty will be leveraging UNO's 35 year history of primate research in their research by studying model mammalian systems. NU's research funding competitiveness, important to improving Nebraska's agriculture systems and human health, will be strengthened by new hires at UNL and UNMC.

- 5 UNL/IANR faculty lines - \$790,000
- 3 UNMC faculty lines - \$410,000

Early Childhood

Recent POE investments have strengthened NU's initiatives in early childhood education and health. New faculty lines have been developed to address issues associated with childhood obesity and early childhood education. This investment is being leveraged by using resources from NU's Buffett Early Childhood Institute to create endowed professorships.

- 1 UNMC faculty line - \$150,000
 - Endowed Community Professorship in Early Childhood Obesity
- 1 UNK faculty line - \$84,910
 - Cille and Ron Williams Endowed Community Chair for Early Childhood Education

Example Impacts from Past Programs of Excellence Investments

Virology

POE investments in the UNL Center for Virology, first made in 2007 and now totaling \$370,000, have been allocated to partially support the research activities of 10 faculty members addressing issues in agriculture and human health. In 2015 alone, faculty associated with the POE received 14 grants totaling \$6.7 million and published 35 journal articles.

Information Technology

Earlier POE investments (FY2001 to FY2012) in the UNO College of Information Sciences and Technology resulted in 8 new faculty lines. These faculty members have participated in \$13.7 million in grants and published over 300 journal articles; undergraduate and graduate instructional capacity has also significantly increased, with these faculty teaching over 30 courses.

Nano Sciences and Technologies

As an early investment area (FY2003), and currently receiving \$828,000, the nano sciences at UNL are now recognized internationally. In the most current reporting year, the POE received a 5-year grant from the National Science Foundation that makes it part of the Nanotechnology Coordinated Infrastructure program representing the Midwest (other Universities with this designation include Cornell, Stanford, U. of Penn., etc.). In 2015 alone, active grants totaled \$22.4 million and faculty associated with the POE published 228 journal publications.

Nursing

POE funding has been used to support additional nursing faculty and graduate students, in order to create additional capacity to admit and train new nurses under UNMC's Accelerated Bachelors of Nursing (aka RN to BSN) program. Eight students per yearly cohort have been added. The POE, established in FY2003, also has leveraged this capacity and successfully obtained federal grants from the Federal Health Resources and Services Administration (HRSA). HRSA funds help support the enrollment of 8-16 additional students in each yearly cohort. Nurses educated by UNMC are preferred hires across Nebraska; students are exposed to rural clinical experiences, making them far more likely to consider working in rural settings where the shortage of nurses is the most critical. Because of the program's successes, popularity, and unique urban and rural clinical experiences, the College of Nursing's RN to BSN program is offered across the state, including at UNK's new Health Science Center.

Need Based Aid (Collegebound Nebraska)

President Bounds' goal for the University of Nebraska to be the best place in the nation to be a student starts with affordability and access. While NU represents a great value compared to peer institutions, students and families are paying close attention to college costs and a university education must remain within reach for those who want to pursue it. A primary component of ensuring affordability is providing adequate financial aid. Collegebound Nebraska, the university's tuition assistance program, promises full tuition coverage for over 7,000 Nebraska undergraduates attending the university – representing 1 out of every 6 resident undergraduates attending the university.

The FY 2017 proposed budget includes a 2.5 percent increase so that our need-based aid budgets can be indexed to the approved 2.5 percent tuition increase. In total, the university will invest over \$11 million from its state-aided budget for need-based financial aid in FY 2017.

Intercampus Development Fund: College Access and Success Initiatives

The FY 2017 budget includes a \$250,000 increase to the University's Intercampus Development Fund budget. Residing in the Central Administration (UNCA) operating budget, the Intercampus Development Fund is funding available to the President to make investments in university wide and/or campus initiatives.

The proposed \$250,000 increase will initially be designated for marketing and college access and success initiatives, including the recently launched Commit to Complete campaign. Commit to Complete provides students with a plan to help them graduate on time so they can minimize their debt loads and enter the workforce sooner. Funding will support the university's efforts to communicate with as many Nebraskans as possible, particularly high school students, about the initiative.

Economic Competitiveness Initiatives – Legislative Designations

A key component of the University's 2015-17 biennial budget request to the Legislature was an economic competitiveness package focused on strategic, multi-campus university initiatives benefiting Nebraskans. The University of Nebraska and the state have a long and successful history of working together to achieve shared goals for education and economic growth in the state and we hope to continue that partnership in the years ahead.

We were pleased Governor Ricketts and members of the Legislatures provided targeted support for several NU economic development and other initiatives, including a new simulated learning center at UNMC, staffing and operations and maintenance at the Health Science Education Complex on the UNK campus, a new UNMC-UNO biomedical technology institute, the UNO-based Nebraska Business Development Center, and a proposed international trade and finance institute at UNL named in honor of former U.S. Secretary of Agriculture and UNL alum Clayton Yeutter.